

Message Text

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PAGE 01 ROME 02974 241737Z
ACTION IO-13

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E.O. 11652: N/A
TAGS: UN, EAID, EFIN, EAGR, OCON
SUBJECT: IFAD EXPERTS MEETING ON LENDING POLICIES AND CRITERIA

1. SUMMARY: PARTICIPATION IN FEB 21-23 EXPERTS' MEETING VARIED CONSIDERABLY WITH VIRTUALLY NO INTERVENTIONS BY VENEZUELA, EGYPT, AND IRAN REPRESENTATIVES. BANGLADESH REPRESENTATIVE (ISLAM) IN CAPACITY OF CHAIRMAN WAS GENERALLY SUPPORTIVE AS WAS SWEDISH REPRESENTATIVE (KLACHENBURG). MEXICAN DELEGATION INTERVENED FREQUENTLY, BUT REGARDLESS OF SUBJECT ORDER DISCUSSION, ALWAYS WITH SINGLE PURPOSE OF ATTEMPTING TO BROADEN FOCUS TO ALLOW MORE FAVORABLE TREATMENT FOR HIGHER INCOME RECIPIENTS. U.S. AND KUWAIT (SHIHATA) PLAYED MOST ACTIVE ROLE AND PREVAILED ON ALL ISSUES OF SUBSTANCE WITH EXCEPTION OF PARTIAL COMPROMISE WITH RESPECT TO OBJECTIVE OF AVOIDING ANY REFERENCE TO PROJECT CONSIDERATIONS IN DETERMINING LENDING TERMS. COMPROMISE WAS NECESSITATED BY INTRANSIGENCE OF JAPAN REPRESENTATIVE (OYAKE) WHO WAS SUPPORTIVE OF U.S. POSITION ON ALL OTHER ISSUES. END SUMMARY

2. SMALL FARMER FOCUS. DRAFT DOCUMENT WHICH WOULD HAVE PERMITTED ALMOST AGRICULTURALLY RELATED ACTIVITY IS NOW CIRCUMSCRIBED TO FOCUS ON SMALL FARMERS AND LANDLESS AGRICULTURAL LABORERS. ALL PREVIOUS REFERENCES TO URBAN POOR AND NON-FARMING SECTOR ARE
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PAGE 02 ROME 02974 241737Z

NOW ELIMINATED. BY SAME TOKEN, IFAD'S INVOLVEMENT IN LARGE SCALE, CAPITAL INTENSIVE PROJECTS SUCH AS FERTILIZER COMPLEXES, LARGE HYDRAULIC WORKS AND AGRO-INDUSTRIES WILL BE LIMITED TO SMALL SCALE VERSIONS OF LATTER AND TO CO-FINANCING ARRANGEMENTS WITH REGARD TO LARGE CAPITAL PROJECTS IN WHICH IFAD PARTICIPATES ONLY TO EXTENT OF PROVIDING MEANS TO ASSURE THAT SMALL FARMER GROUPS ALSO BENEFIT.

3. LENDING TERMS. DESPITE EXTENSIVE DISCUSSION, TERMS REMAIN ESSENTIALLY AS IN DRAFT DOCUMENT WITH 3 CATEGORIES: (A) 1 PERCENT ANNUALLY FOR 50 YEARS, INCLUDING 10 YEARS GRACE; (B) 4 PERCENT ANNUALLY FOR 20 YEARS, INCLUDING 5 YEARS GRACE; AND (C) 8 PERCENT FOR 15 TO 18 YEARS, INCLUDING 3 YEARS GRACE. JUSTIFICATION FOR THE DEGREE OF CONCESSIONALITY WILL BE PROVIDED IN EVERY PROJECT SUBMITTED TO THE BOARD. THE DOMINANT CRITERION SHALL BE COUNTRY'S ECONOMIC AND FINANCIAL SITUATION. HOWEVER, AS A RESULT OF INSISTANCE PRIMARILY BY THE JAPANESE REPRESENTATIVE TO TAKE INTO ACCOUNT PROJECT CONSIDERATION, AN ADDITIONAL PHASE WAS ACCEPTED TO THE EFFECT THAT "THE BOARD MIGHT IN APPROPRIATE CASES CONSIDER THE NATURE OF THE PROJECT IN DETERMINING THE DEGREE OF CONCESSIONALITY". PROVISION ALSO INCLUDED FOR RELENDING BY RECIPIENT COUNTRY TO INTERMEDIATE BORROWERS, I.E. TWO-STEP PROCEDURE TO COVER PROJECTS WITH HIGHER RATES OF RETURN.

4. ALLOCATION OF RESOURCES. DESPITE STRENUOUS OBJECTIONS FROM THE MEXICAN DELEGATION, THE EXPERTS' COMMITTEE ADOPTED THE STATEMENT THAT THE "LARGEST PORTION OF THE FUND'S REVENUES WILL BE MADE AVAILABLE TO THE POOREST DEVELOPING COUNTRIES" WITH A FOOTNOTE TO THE EFFECT THAT THE COMMITTEE FELT THAT THIS SHOULD COVER COUNTRIES WITH PER CAPITA INCOME OF \$500 OR LESS (IN 1975 PRICES) AND THAT THE POOREST AMONG THEM SHOULD RECEIVE SPECIAL ATTENTION. IT WAS FURTHER AGREED THAT THE POOREST COUNTRIES WOULD RECEIVE THE MOST FAVORABLE TERMS AND WOULD BE THE PRINCIPAL BENEFICIARIES OF ANY GRANT ASSISTANCE.

5. PROJECT APPRAISAL AND SUPERVISION. LANGUAGE WAS ADOPTED LIMITED OFFICIAL USE

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PAGE 03 ROME 02974 241737Z

CONSISTENT WITH THE ARTICLES OF AGREEMENT TO ASSURE THAT EXISTING IFI'S ARE UTILIZED IN APPRAISAL AND SUPERVISION OF PROJECT IMPLEMENTATION. FUND STAFF, HOWEVER, WILL PARTICIPATE IN THESE ACTIVITIES TO ENSURE OBSERVANCE OF IFAD'S LENDING POLICIES AND OBJECTIVES. PROJECT MONITORING ACTIVITIES DESIGNED TO PROVIDE GREATER FEED-BACK IN THE COURSE OF IMPLEMENTATION WERE FURTHER CLARIFIED TO AVOID THIS TECHNIQUE BECOMING A SUBSTITUTE FOR ADEQUATE PROJECT PREPARATION. AN EFFORT BY THE MEXICAN REPRESENTATIVE TO DOWNPLAY MONITORING AND FORMAL EVALUTATION WAS REJECTED.

6. LOCAL COST FINANCING. REFERENCE IN THE DRAFT DOCUMENT TO ENCOURAGING PROJECTS WITH A LOW IMPORT CONTENT WAS ALTERED TO SIMPLE RECOGNITION THAT PROJECTS FOCUSING ON SMALL FARMERS WOULD HAVE RELATIVELY LARGE LOCAL COST COMPONENTS. ADDITIONAL WORDING WAS ALSO ADOPTED STATING THAT THE FUND WOULD "IN NO CASE FINANCE THE ENTIRE COST OF A PROJECT" AND THAT IN SUPPORT OF LOCAL COST FINANCING THE BORROWER WOULD BE ENCOURAGED TO INCREASE ITS BUDGETING AND HUMAN RESOURCES ALLOCATED FOR AGRICULTURAL AND RURAL DEVELOPMENT.BEAUDRY

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Disposition Date: 22 May 2009
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